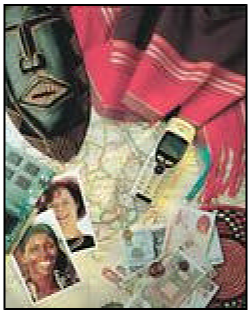

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Making Globalization Work in Africa

G.E. Gondwe

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Making globalization work in Africa is one of the most urgent tasks facing the region's policymakers. There is no doubt that economic growth rates in sub-Saharan Africa have lagged far behind those of other regions and that Africa is the region least integrated into the global economy. A growing body of opinion also suggests that the odds for Africa's integration are so unfavorable that its marginalization is inevitable. Our view at the IMF, however, is that African countries can and must integrate themselves into world markets if they wish to succeed. For Africa, an important intermediate step toward integration into the world economy is promoting regional integration at home. The IMF is fully committed to playing an active role in this effort. Indeed, the importance of regional integration featured prominently in the discussions that Horst Köhler, the Managing Director of the IMF, and James Wolfensohn, the President of the World Bank, had with African heads of state during their joint trip to Africa in February 2001.

Globalization's impact

Our globalized world offers many benefits. Over the past fifty years, trade has been a major force driving economic growth, with global trade expansion far outstripping global GDP growth. In the 1990s alone, world trade grew at an annual average rate of 6.8 percent, more than double the annual world output growth of 3.2 percent. For developing countries as a whole, the benefits have been greater. During the 1990s, developing countries' trade increased 8.3 percent a year while annual real GDP growth increased 5.5 percent.

The benefits of globalization, however, have not accrued equally across countries. Africa's share in world trade has actually decreased sharply in the past decade. As an illustration, consider that the non-oil exports of sub-Saharan Africa amounted to $69 billion in 2000. If the region's countries had merely maintained their export market shares of 1980, their 2000 exports would have amounted to $161 billion—more than double the actual outcome. This is a huge loss that has seriously impaired Africa's growth performance.

At the same time, the crises of the mid-to-late 1990s in Asia and other emerging markets have overshadowed the advantages of outward-looking, liberalized economies, shifting the focus of discussion to the risks inherent in an increasingly integrated world economy. Critics have tried to blame the general advance of economic globalization for continuing poverty around the world, including in Africa. Leaders of countries in Africa and elsewhere that are not yet fully integrated into the world economy may therefore rightly question whether it is in their best interests to further expose their countries to the risks of a global economy. Is globalization really good for small countries and, if so, under what conditions?

What is clear is that many people in many countries have been able to lift themselves out of poverty during the past half century precisely because of the opportunities created by globalization. Economic globalization is not a cause of continued poverty in Africa but rather an important part of the solution to it. What the financial crises in Asia and elsewhere have also shown, however, is that economic openness is not enough. Sound and transparent macroeconomic policies, a stable and rational regulatory and incentive framework, robust financial systems accompanied by effective supervision mechanisms, and good governance in the public and private sectors are also required if countries are to take full advantage of globalization and to prevent the crises that have struck other emerging countries.

African leaders made it abundantly clear to the heads of the IMF and the World Bank, during their joint trip to Africa, that African countries strongly wish to reposition themselves in the world economy to maximize the benefits that have uplifted other regions. Indeed, they pointed out that some African countries have already achieved significant macroeconomic stability in recent years while also liberalizing trade and exchange regimes, adopting market-determined exchange rates, and removing administrative controls, often with IMF advice and support. Among these countries, Benin, Botswana, Burkina Faso, Cameroon, Mauritius, Mozambique, Senegal, Tanzania, and Uganda all achieved real annual GDP growth rates of 5 percent or more during 1999 and 2000 while bringing inflation down to single-digit levels. Despite these gains, however, much of Africa has not been able to take full advantage of integration into the global economy. With its low domestic saving rates, endemic poverty, strong dependence on commodity exports, and continued lack of openness and liberalization in many countries, Africa still risks being marginalized.

What can Africa do?

Africa's leaders recognize that globalization can facilitate much-needed inflows of private investment and transfers of technology as well as increase the access of their countries' exports to world markets. African leaders have also made it clear that reaping the benefits of globalization depends primarily on the initiative and commitment of their own governments. This means that African countries must persistently pursue policies that create the conditions that attract investment, both domestic and foreign, and enhance trade.

If properly conceived, regional integration offers many advantages for helping African countries overcome the obstacles they face. Closer trading links between African countries would strengthen their capacity to participate in world trade. With 48 relatively small, high-cost economies, Africa should pursue regional integration with a view to helping harmonize national policies and creating larger markets. The benefits of achieving economies of scale in production and distribution, particularly lower transaction costs and increased reliability, will enhance the efficiency and competitiveness of domestic producers.

African countries could also benefit from the establishment of regional infrastructures, both physical and financial. A regional approach in key structural areas—such as tariff reduction and harmonization, legal and regulatory reform, payment systems rationalization, financial sector reorganization, investment incentive and tax system harmonization, and labor market reform—enables participating countries to pool their resources and avail themselves of regional institutional and human resources, in order to attain greater technical and administrative competence than they could on their own. In addition, the establishment of shared energy, power, telecommunications, and transportation systems is not only cost effective but also helps bring countries closer together as they set common regional policies. Pursuing such a regional approach will, in turn, allow countries to assert their interests in the international arena from stronger and more confident positions.

Finally, the conditions and obligations of participation in an ambitious reform program within a regional organization also permit national authorities to implement politically difficult measures at home, such as lowering tariffs or instituting wide-ranging reforms of the regulatory and judicial systems—the so-called second-generation reforms. Regional surveillance and dialogue between the various members of the regional organization also help reduce the risks of macroeconomic slippage, resulting in a more stable, predictable environment—clearly a prerequisite for a flourishing private sector.

Most countries already share the objective of achieving macroeconomic stability by implementing IMF-supported programs. Participation in a regional organization provides countries with stronger incentives to implement the measures necessary to achieve the stability they desire. We are already seeing evidence of the effects of such positive peer pressure at work in eastern and central Africa, where more and more countries are adopting market-based exchange rate systems to improve their macroeconomies.

How regional integration can succeed

Attempts at regional integration in Africa have a long history but a very uneven implementation record. The presence of too many different and overlapping regional arrangements, particularly in eastern and southern Africa, has created confusion and cumbersome administrative rules.

The real challenge is to ensure that regional organizations are perceived as effective means of integrating Africa into the world economy, fostering mutual support among members in their reform efforts. Most important, these organizations should not be perceived as mechanisms for defending established interest groups. Rather, in order to truly become vehicles for global integration, they should be seen as pushing for openness to the rest of the world.

What is needed for Africa to achieve these objectives? First, there must be the political will to pursue regional integration objectives and to give them priority over domestic considerations. Second, a resolute effort must be made to rationalize existing arrangements. Third, efforts are needed to coordinate macroeconomic policies by reinforcing peer-group surveillance of national economic policies, including adopting convergence criteria, and to work more intensively to harmonize standards and regulations.

The IMF's role

What is the IMF doing in this area? First, by ensuring strengthened national economic stability and performance through its programs and policy advice, the IMF is making sure that the building blocks of regional integration are sound. Second, it is increasing the emphasis on regional issues in IMF-supported programs with member countries, including commitments made under regional arrangements. Third, the IMF is helping regional organizations monitor the macroeconomic performance of its member countries by releasing information on individual countries, including that gathered during its regular Article IV (of the IMF's Articles of Agreement, or charter) consultation reports. These reports provide the material necessary to compare country performance and stimulate peer pressure on weak performers. Fourth, it is intensifying and expanding regional surveillance efforts to enhance regional policy coordination and institutional harmonization. In particular, IMF consultations at the regional level are assisting in the specification and monitoring of convergence criteria and associated macroeconomic policies. Fifth, the IMF is providing extensive technical assistance, including to regional bodies, in tax harmonization, the design of convergence criteria, and the establishment of regional banking commissions. Finally, the IMF, working together with the World Bank, helps to promote investment in regions by facilitating the establishment of regional investment councils in strong-performing regions of Africa that will provide for direct and regular contact between potential investors from developed countries and high-level government officials and entrepreneurs.

There has been some progress to date in regional integration in Africa. The West African Economic and Monetary Union (WAEMU) has made considerable progress in recent years in establishing a free-trade area to reinforce its common currency. With IMF encouragement and advice, the rates and numbers of external tariffs have been reduced while internal tariffs have been removed. The IMF has also helped regional authorities introduce both macroeconomic convergence criteria for member countries and corresponding monitoring mechanisms. Assessment of and adherence to these targets are now being reinforced through the IMF's regional consultations and, increasingly, through bilateral aid programs.

While the situation in eastern and southern Africa is more challenging, given that there is no history of a common currency on which to build, efforts are under way to establish separate free-trade areas in the Southern African Development Community and the Common Market for Eastern and Southern Africa, while a task force has been set up to improve coordination between the two groups. By providing technical assistance and advice to the regional authorities, the IMF is encouraging open trade, financial sector reform and harmonization, and the establishment of macroeconomic surveillance procedures. So far, the top tariff rates are declining and the major nontariff barriers have all but disappeared, while internal tariffs have been eliminated or substantially reduced and currency restrictions have been removed.

Conclusion

The best way for Africa to promote growth and reduce poverty is by embracing the global economy, improving policies, and strengthening institutions. Regional integration is an important step in integrating Africa into the global economy. These will be difficult tasks, but they can be accomplished, provided policymakers in Africa and the international community are ready to do their parts.

G. E. Gondwe is the Director of the IMF's African Department.